

CITY OF CASPIAN
AUDITED FINANCIAL STATEMENTS
CASPIAN, MICHIGAN

Fiscal Year Ended June 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Caspian	County Iron
Audit Date 6/30/04	Opinion Date 8/2/04	Date Accountant Report Submitted to State: 8/26/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the report of comments and recommendations.

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	x		
Reports on individual federal financial assistance programs (program audits).			x
Single Audit Reports (ASLGU).			x

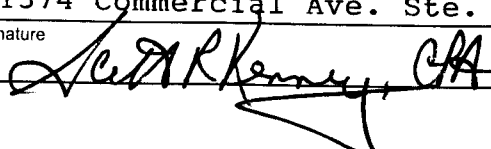
Certified Public Accountant (Firm Name) Scott R. Kenney, CPA			
Street Address 1374 Commercial Ave. Ste. 1	City Crystal Falls	State MI	ZIP 49920
Accountant Signature 		Date 8/26/04	

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SCOTT R. KENNEY

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Caspian
Caspian, Michigan 49915

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Caspian, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's elected officials and management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

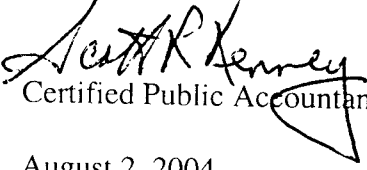
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Caspian, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of June 30, 2004.

The management's discussion and analysis and budgetary comparison information on pages 5 through 9 and 34 through 36, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Caspian, Michigan's basic financial statements. The introductory section, statistical tables and additional information section are presented for additional analysis and are not a required part of the basic financial statements. The additional information section has been subjected to auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.


Certified Public Accountant

August 2, 2004

CITY OF CASPIAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

The City as a Whole

The City's combined net assets decreased 8.4% from a year ago - decreasing from \$2.336 million to \$2.140 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced a larger decrease of approximately \$84,000 during the year (16.8% decrease). This is attributed to an increase in employee benefit costs and significant repairs and enhancements to both the Ski Chalet building and the Community Center. The business-type activities experienced a \$112,000 decrease in net assets, primarily sewer costs incurred to comply with the Department of Environment Quality Consent Order and increasing employee benefit costs. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2004	2003	2004	2003	2004	2003
Current Assets	\$ 497	\$ 627	\$ 111	\$ 156	\$ 608	\$ 783
Noncurrent Assets	<u>304</u>	<u>328</u>	<u>2,694</u>	<u>2,772</u>	<u>2,998</u>	<u>3,100</u>
Total Assets	\$ 801	\$ 955	\$ 2,805	\$ 2,928	\$ 3,606	\$ 3,883
Long-Term Debt Outstanding	\$ 331	\$ 395	\$ 1,063	\$ 1,058	\$ 1,394	\$ 1,453
Other Liabilities	<u>59</u>	<u>65</u>	<u>13</u>	<u>29</u>	<u>72</u>	<u>94</u>
Total Liabilities	<u>\$ 390</u>	<u>\$ 460</u>	<u>\$ 1,076</u>	<u>\$ 1,087</u>	<u>\$ 1,466</u>	<u>\$ 1,547</u>
Net Assets						
Invested in Capital Assets—Net of Debt	\$ 304	\$ 328	\$ 1,593	\$ 1,649	\$ 1,897	\$ 1,977
Restricted	34	27	38	66	72	93
Unrestricted (Deficit)	<u>73</u>	<u>140</u>	<u>98</u>	<u>126</u>	<u>171</u>	<u>266</u>
Total Net Assets	\$ 411	\$ 495	\$ 1,729	\$ 1,841	\$ 2,140	\$ 2,336

CITY OF CASPIAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

Unrestricted net assets—the part of net assets that can be used to finance day to day operations, decreased by \$67,000 for the governmental activities. This represents a decrease of approximately 47.9%. The current level of unrestricted net assets for our governmental activities stands at \$73,000, or about 9.6% of expenditures.

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Program Revenues						
Charges for Services	\$ 83		\$ 269		\$ 352	
Operating Grants and Contributions	69		0		69	
Capital Grants and Contributions	0		0		0	
General Revenues						
Property Taxes	\$ 208		\$ 0		\$ 208	
State-Shared Revenues	274	N	0	N	274	N
Unrestricted Investment Earnings	4	O	2	O	6	O
Reimbursements and other	24	T	0	T	24	T
Sale of land	3		0		3	
Transfers and Other Revenue	<u>10</u>		<u>0</u>		<u>10</u>	
Total Revenues	\$ 675		\$ 271		\$ 946	
Program Expenses						
General Government	\$ 167	A	\$ 0	A	\$ 167	A
Public Safety	87	V	0	V	87	V
Public Works	329	A	0	A	329	A
Employee benefits	131	I	0	I	131	I
Insurance	18	L	0	L	18	L
Recreation & Culture	17	A	0	A	17	A
Interest on Long-Term Debt	9	B	0	B	9	B
Water & Sewer	<u>0</u>	L	<u>0</u>	L	<u>0</u>	L
		E	<u>383</u>	E	<u>383</u>	E
Total Expenses	\$ <u>759</u>		\$ <u>383</u>		\$ 1,141	
Change in Net Assets	\$ (84)		\$ (112)		\$ (196)	

CITY OF CASPIAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

The City's net assets continue to remain healthy. The settlement of the lawsuit with Associated Contractors (water project) has allowed the City to recover some of the costs expended in defending the case and pay off the balance due on the contract with grant funds. This also allowed the City to settle its portion of the loan on the fire truck saving several thousand dollars in interest over the coming years.

Governmental Activities

The City's total governmental revenues decreased by approximately \$82,000 due to the partial reimbursement received in 2002-2003 fiscal year for past legal costs incurred. The largest increase, compared to the prior year, was interest and rental income.

Cash expenditures increased by slightly more than \$100,000 during the year. This was due to payoff of the fire truck loan and increasing employee benefit costs.

With the elimination of the fire truck debt and settlement of the Associated Contractors lawsuit, the City is better positioned to pursue its mission of providing services to the residents.

Business-Type Activities

The City's business-type activities consist of the Water and Sewer Funds. The City provides water to residents, which comes from the City's own water system. The City also provides sewage treatment to residents, through the West Iron County Sewage Authority. In 2003, it was a very dry year which resulted in high usage in the water system. The expenses in the Water Fund decreased due to the cost controls and a lower level of water sales. This resulted in a lowering of the net operating loss by approximately \$6,000. The Sewer Fund expenses increased by more than \$30,000. This increase can be directly attributed to expenses incurred to comply with the Department of Environmental Quality consent order. This resulted in a net operating loss in 2004 of more than \$27,000 after experiencing net operating income in 2003. As a result of the loss and anticipated continued expenses to comply with the consent order, a rate increase will be considered early in the 2004-2005 year.

The City's Funds

Analysis of the City's major funds begins on page 12, following the entity-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as a special property tax millage. The City's major funds for 2004 include the General Fund, Major Street Fund, Tax Incremental Financing Fund, Water Fund and Sewer Fund.

CITY OF CASPIAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

The General Fund pays for most of the City's governmental services. The most significant are general maintenance of city property and building, maintaining the City's equipment, police and fire services and general administration. These services are primarily funded from property taxes assessed to the residents of the City and revenues shared with the State of Michigan.

General Fund Budgetary Highlights

Over the course of the year, the City Board did not amend the budget during the year. The most significant variations during the 2004 year occurred with an increase in property tax revenues, larger than expected rental charges, and reimbursement of prior year expenditures. Both revenues and expenditures exceeded budgeted amounts with the largest expenditure variance being for renovations to the City's Ski Chalet and Community Center.

Capital Asset and Debt Administration

At the end of 2004, the City had more than \$2,900,000 invested in a broad range of capital assets, including snow removal equipment, police and fire equipment, and water and sewer lines. In addition, the City has invested significantly in roads and buildings within the City. The cost value of the roads and buildings acquired prior to July 1, 2003, are not required to be reported in the City's financial statements under accounting principles generally accepted in the United States of America. Consequently, the cost of the roads and buildings acquired prior to the 2003-2004 fiscal year are not included in these financial statements.

Economic Factors and Next Year's Budgets and Rates

The City's budget for 2004-2005 calls for a freeze on property tax rates. This can be accomplished because of the controls that are being placed on governmental fund expenditures. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than the inflationary rate, the mathematical result of this is that the total taxable value for the City will grow at a rate less than inflation, before considering new property additions.

As discussed above, we anticipate that the sewer rates will have to be increased in 2004-2005 to maintain adequate cash flows within the fund. The City is in the process of evaluating the amount of increase that will be needed and will likely discuss the matter at a City Council Meeting early in the forthcoming fiscal year.

CITY OF CASPIAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

Contacting the City's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the manager's office.

CITY OF CASPIAN
GOVERNMENT WIDE STATEMENT OF NET ASSETS
June 30, 2004

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
ASSETS			
CURRENT ASSETS			
Cash and equivalents	\$ 370,642	\$ 73,633	\$ 444,275
Receivables - net	119,789	36,845	156,634
Prepaid expenses	<u>6,518</u>	<u>0</u>	<u>6,518</u>
TOTAL CURRENT ASSETS	\$ 496,949	\$ 110,478	\$ 607,427
RESTRICTED ASSETS - Cash and equivalents	\$ 0	\$ 73,698	\$ 73,698
NON-CURRENT ASSETS			
Property and equipment, net of depreciation	\$ <u>304,248</u>	\$ <u>2,620,706</u>	\$ <u>2,924,954</u>
TOTAL ASSETS	\$ 801,197	\$ 2,804,882	\$ 3,606,079
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 13,350	\$ 12,477	\$ 25,827
Accrued and other liabilities	45,047	363	45,410
Current part of non-current liabilities	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL CURRENT LIABILITIES	\$ 58,397	\$ 12,840	\$ 71,237
LIABILITIES PAYABLE FROM RESTRICTED ASSETS	\$ 0	\$ 35,575	\$ 35,575
NON-CURRENT LIABILITIES			
Compensated absences	\$ 8,582	\$ 0	\$ 8,582
Loan payable	111,694	0	111,694
Revenue bonds payable	0	1,028,000	1,028,000
Unfunded accrued actuarial pension liability	<u>211,049</u>	<u>0</u>	<u>211,049</u>
TOTAL NON-CURRENT LIABILITIES	\$ <u>331,325</u>	\$ <u>1,028,000</u>	\$ <u>1,359,325</u>
TOTAL LIABILITIES	\$ <u>389,722</u>	\$ <u>1,076,415</u>	\$ <u>1,466,137</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 304,248	\$ 1,592,706	\$ 1,896,954
Restricted for			
Capital projects	27,505	0	27,505
Health insurance	6,518	0	6,518
Debt service	0	38,123	38,123
Unrestricted	<u>73,204</u>	<u>97,638</u>	<u>170,842</u>
TOTAL NET ASSETS	\$ <u><u>411,475</u></u>	\$ <u><u>1,728,467</u></u>	\$ <u><u>2,139,942</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2004

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
Governmental Activities			
General government	\$ 166,837	\$ 0	\$ 10,520
Public safety	87,178	293	0
Public works	276,832	82,666	6,503
Employee benefits	131,238	0	0
Insurance	18,715	0	0
Recreation and culture	17,166	0	0
Interest on long-term debt	<u>8,763</u>	<u>0</u>	<u>0</u>
TOTAL GOVERNMENTAL ACTIVITIES	\$ 706,729	\$ 82,959	\$ 17,023
Business-Type Activities			
Water	\$ 236,807	\$ 149,393	\$ 0
Sewer	<u>146,820</u>	<u>119,115</u>	<u>0</u>
TOTAL BUSINESS-TYPE ACTIVITIES	\$ <u>383,627</u>	\$ <u>268,508</u>	\$ <u>0</u>
TOTAL GOVERNMENT	\$ <u><u>1,090,356</u></u>	\$ <u><u>351,467</u></u>	\$ <u><u>17,023</u></u>

GENERAL REVENUES

Property taxes
State shared revenues and grants
Unrestricted investments earnings
Reimbursements
Other

SPECIAL ITEM - Sale of land

TOTAL GENERAL REVENUES AND SPECIAL ITEMS

CHANGE IN NET ASSETS

Net assets - beginning

NET ASSETS - ENDING

The Notes to Financial Statements are an integral part of this statement.

NET REVENUE (EXPENSE) AND CHANGES IN NET ASSETS

<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
\$ 0	\$ (156,317)		\$ (156,317)
0	(86,885)		(86,885)
0	(187,663)		(187,663)
0	(131,238)		(131,238)
0	(18,715)		(18,715)
0	(17,166)		(17,166)
0	(8,763)		(8,763)
\$ 0	\$ (606,747)		\$ (606,747)
\$ 0		\$ (87,414)	\$ (87,414)
0		(27,705)	(27,705)
\$ 0		\$ (115,119)	\$ (115,119)
\$ 0	\$ (606,747)	\$ (115,119)	\$ (721,866)
	\$ 208,213	\$ 0	\$ 208,213
	274,091	0	274,091
	4,450	2,166	6,616
	23,895	0	23,895
	10,336	0	10,336
	2,500	0	2,500
	\$ 523,485	\$ 2,166	\$ 525,651
	\$ (83,261)	\$ (112,953)	\$ (196,214)
	494,736	1,841,420	2,336,156
	\$ 411,475	\$ 1,728,467	\$ 2,139,942

CITY OF CASPIAN
GOVERNMENTAL FUNDS BALANCE SHEET
COMBINED BALANCE SHEET
June 30, 2004

	GENERAL FUND	MAJOR STREET FUND	TAX INCREMENTAL FINANCING FUND
ASSETS			
Cash and equivalents	\$ 239,599	\$ 41,948	\$ 77,148
Taxes receivable - net	23,083	0	0
Accounts receivable	12,209	0	0
Due from other funds	48,071	0	0
Due from other governmental units	17,479	13,485	0
Prepaid expenses	<u>6,518</u>	<u>0</u>	<u>0</u>
TOTAL ASSETS	\$ <u>346,959</u>	\$ <u>55,433</u>	\$ <u>77,148</u>
LIABILITIES			
Accounts payable	\$ 12,581	\$ 0	\$ 769
Accrued payroll expense	3,411	62	0
Due to other funds	0	0	39,810
Due to other governmental units	<u>1,727</u>	<u>0</u>	<u>0</u>
TOTAL LIABILITIES	\$ 17,719	\$ 62	\$ 40,579
FUND BALANCES			
Reserved for			
Capital projects	\$ 27,505	\$ 0	\$ 0
Health insurance	6,518	0	0
Unreserved	<u>295,217</u>	<u>55,371</u>	<u>36,569</u>
TOTAL FUND EQUITY	\$ <u>329,240</u>	\$ <u>55,371</u>	\$ <u>36,569</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>346,959</u>	\$ <u>55,433</u>	\$ <u>77,148</u>

The Notes to Financial Statements are an integral part of this statement.

NON-MAJOR GOVERNMENTAL FUND	TOTAL GOVERNMENTAL FUNDS
-----------------------------------	--------------------------------

\$ 11,947	\$ 370,642
0	23,083
0	12,209
0	48,071
5,462	36,426
0	6,518

\$ <u>17,409</u>	\$ <u>496,949</u>
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\$ 0	\$ 13,350
37	3,510
0	39,810
0	1,727

\$ 37	\$ 58,397
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\$ 0	\$ 27,505
0	6,518
<u>17,372</u>	<u>404,529</u>

\$ <u>17,372</u>	\$ <u>438,552</u>
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\$ <u>17,409</u>	\$ <u>496,949</u>
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CITY OF CASPIAN
RECONCILIATION OF STATEMENT OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2004

Total fund balance - total governmental funds	\$ 438,552
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	304,248
Long term liabilities:	
Loan not due and payable within the current period and not reported in the funds	(111,694)
Accumulated employee vacation and personal pay not used in current period	(8,582)
Unfunded accrued actuarial pension liability not payable in the current period	<u>(211,049)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u>411,475</u>

CITY OF CASPIAN
GOVERNMENTAL FUNDS STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCE
Year ended June 30, 2004

	GENERAL FUND	MAJOR STREET FUND	TAX INCREMENTAL FINANCING FUND
REVENUES			
Property taxes	\$ 172,234	\$ 0	\$ 35,979
State shared revenues and grants	146,092	89,612	0
Fines and forfeitures	293	0	0
Charges for services	82,666	0	0
Interest and rentals	73,618	0	37
Sale of property	2,500	0	0
Reimbursements	23,895	0	0
Other	9,729	0	0
TOTAL REVENUES	\$ 511,027	\$ 89,612	\$ 36,016
EXPENDITURES			
Current			
General government	\$ 166,538	\$ 0	\$ 0
Public safety	76,050	0	0
Public works	152,088	130,820	0
Recreation	17,166	0	0
Employee benefits	101,080	0	0
Insurance	18,715	0	0
Other	0	0	0
Capital outlay	0	0	25,624
Debt service	68,229	0	10,257
TOTAL EXPENDITURES	\$ 599,866	\$ 130,820	\$ 35,881
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (88,839)	\$ (41,208)	\$ 135
Fund balance - July 1	418,079	96,579	36,434
FUND BALANCE - JUNE 30	\$ 329,240	\$ 55,371	\$ 36,569

The Notes to Financial Statements are an integral part of this statement.

	NON-MAJOR GOVERNMENTAL FUND		TOTAL GOVERNMENTAL FUNDS
\$	0	\$	208,213
	38,387		274,091
	0		293
	0		82,666
	0		73,655
	0		2,500
	0		23,895
	607		10,336
\$	38,994	\$	675,649
\$	0	\$	166,538
	0		76,050
	33,333		316,241
	0		17,166
	0		101,080
	0		18,715
	0		0
	0		25,624
	0		78,486
\$	33,333	\$	799,900
\$	5,661	\$	(124,251)
	11,711		562,803
\$	17,372	\$	438,552

CITY OF CASPIAN
RECONCILIATION OF STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2004

Net change in fund balance - total governmental funds	\$ (124,251)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; in the Statement of Activities these costs are allocated over their estimated useful life and reported as depreciation.	1,425
Repayments of loan principal is an expenditure in the governmental funds but not in the Statement of Activities (where it reduces long-term debt).	69,723
Increases in accumulated employee vacation and personal pay are recorded when earned in the Statement of Activities.	(8,582)
Increase in unfunded accrued actuarial pension liability not requiring the use of current financial resources	<u>(21,576)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>(83,261)</u></u>

CITY OF CASPIAN
 PROPRIETARY FUNDS STATEMENT OF NET ASSETS
 June 30, 2004

ASSETS	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
Current Assets			
Cash and equivalents	\$ 70,745	\$ 2,888	\$ 73,633
Accounts receivable	<u>21,568</u>	<u>15,277</u>	<u>36,845</u>
TOTAL CURRENT ASSETS	\$ 92,313	\$ 18,165	\$ 110,478
Noncurrent Assets			
Restricted cash and equivalents	\$ 73,698	\$ 0	\$ 73,698
Capital assets	<u>2,620,706</u>	<u>0</u>	<u>2,620,706</u>
TOTAL NONCURRENT ASSETS	\$ 2,694,404	\$ 0	\$ 2,694,404
TOTAL ASSETS	<u>\$ 2,786,717</u>	<u>\$ 18,165</u>	<u>\$ 2,804,882</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 4,145	\$ 8,332	\$ 12,477
Accrued payroll expenses	301	62	363
Due to other funds	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL CURRENT LIABILITIES	\$ 4,446	\$ 8,394	\$ 12,840
Noncurrent Liabilities			
Current liabilities payable from restricted assets	\$ 35,575	\$ 0	\$ 35,575
Revenue bonds payable	<u>1,028,000</u>	<u>0</u>	<u>1,028,000</u>
TOTAL NONCURRENT LIABILITIES	\$ 1,063,575	\$ 0	\$ 1,063,575
TOTAL LIABILITIES	<u>\$ 1,068,021</u>	<u>\$ 8,394</u>	<u>\$ 1,076,415</u>
NET ASSETS			
Invested in capital assets-net of related debt	\$ 1,592,706	\$ 0	\$ 1,592,706
Restricted from debt service	38,123	0	38,123
Unrestricted	<u>87,867</u>	<u>9,771</u>	<u>97,638</u>
TOTAL NET ASSETS	<u>\$ 1,718,696</u>	<u>\$ 9,771</u>	<u>\$ 1,728,467</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
 PROPRIETARY FUNDS STATEMENT OF REVENUES,
 EXPENSES AND CHANGES IN NET ASSETS
 Year ended June 30, 2004

	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
OPERATING REVENUES			
Metered sales	\$ 147,462	\$ 117,118	\$ 264,580
Penalties and interest charges	1,388	1,955	3,343
Taps and other sales	<u>543</u>	<u>42</u>	<u>585</u>
TOTAL OPERATING REVENUES	\$ 149,393	\$ 119,115	\$ 268,508
OPERATING EXPENSES			
Personal services	\$ 63,852	\$ 14,632	\$ 78,484
Contractual services	8,121	130,215	138,336
Utilities	7,052	0	7,052
Repairs and maintenance	150	0	150
Equipment rental	5,103	1,839	6,942
Other supplies and expenses	19,020	134	19,154
Depreciation	<u>86,161</u>	<u>0</u>	<u>86,161</u>
TOTAL OPERATING EXPENSES	\$ <u>189,459</u>	\$ <u>146,820</u>	\$ <u>336,279</u>
OPERATING INCOME (LOSS)	\$ (40,066)	\$ (27,705)	\$ (67,771)
NONOPERATING REVENUES (EXPENSES)			
Interest earned	\$ 2,166	\$ 0	\$ 2,166
Interest expense	<u>(47,348)</u>	<u>0</u>	<u>(47,348)</u>
TOTAL NONOPERATING REVENUE (EXPENSE)	\$ <u>(45,182)</u>	\$ <u>0</u>	\$ <u>(45,182)</u>
NET INCOME (LOSS)	\$ (85,248)	\$ (27,705)	\$ (112,953)
Total net assets - beginning	<u>1,803,944</u>	<u>37,476</u>	<u>1,841,420</u>
TOTAL NET ASSETS - ENDING	\$ <u><u>1,718,696</u></u>	\$ <u><u>9,771</u></u>	\$ <u><u>1,728,467</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
 PROPRIETARY FUNDS STATEMENT OF CASH FLOW
 Year ended June 30, 2004

	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 151,747	\$ 119,004	\$ 270,751
Payments to suppliers	(63,775)	(138,157)	(201,932)
Payments to employees	(36,441)	(8,195)	(44,636)
Internal activity-loan repaid by other funds	<u>1,592</u>	<u>818</u>	<u>2,410</u>
CASH FLOWS FROM OPERATING ACTIVITIES	\$ 53,123	\$ (26,530)	\$ 26,593
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal and interest paid on capital debt	\$ (61,610)	\$ 0	\$ (61,610)
Funding of restricted accounts	<u>(6,782)</u>	<u>0</u>	<u>(6,782)</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING	\$ (68,392)	\$ 0	\$ (68,392)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned	\$ <u>2,166</u>	\$ <u>0</u>	\$ <u>2,166</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	\$ (13,103)	\$ (26,530)	\$ (39,633)
Cash and equivalents - beginning	<u>83,846</u>	<u>29,418</u>	<u>113,264</u>
CASH AND EQUIVALENTS - ENDING	\$ <u><u>70,743</u></u>	\$ <u><u>2,888</u></u>	\$ <u><u>73,631</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (40,066)	\$ (27,705)	\$ (67,771)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities			
Depreciation	86,161	0	86,161
Change in Assets and Liabilities			
Receivables - net	2,354	(111)	2,243
Due from other funds	1,592	818	2,410
Accounts payable	3,908	497	4,405
Accrued payroll expense	<u>(826)</u>	<u>(29)</u>	<u>(855)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>53,123</u></u>	\$ <u><u>(26,530)</u></u>	\$ <u><u>26,593</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
FIDUCIARY FUNDS - STATEMENT OF NET ASSETS
June 30, 2004

		AGENCY FUND TYPE <u>(Tax Collections)</u>
ASSETS		
Cash and equivalents	\$	8,167
Due from other funds		10,419
Due from other governmental units		<u>822</u>
TOTAL ASSETS	\$	<u><u>19,408</u></u>
LIABILITIES		
Due to other funds	\$	18,679
Due to other governmental units		<u>729</u>
TOTAL LIABILITIES	\$	<u><u>19,408</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Caspian (City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

I. Reporting Entity

The City is governed by an elected five member council (Council). The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations.

The City does not have any component units that are blended or discretely presented.

Jointly Governed Organization—

Caspian-Gaastra Fire Authority

The Cities of Caspian and Gaastra participate jointly in the operation of the Caspian-Gaastra Fire Authority. Each city appoints two board members to the fire authority's governing board with the governing board appointing a fifth member. All of the financial operations of the Authority are recorded in a separate set of financial records and are available at the City of Gaastra offices.

The funding formula approved by the members of the Local Units is based pro rata on each unit's population. The City's contribution to the Fire Authority for the audit period was \$18,680 from its general fund for operations and \$10,257 from its Tax Incremental Financing Fund for debt retirement.

West Iron County Sewage Authority

The City is one of five municipalities participating jointly in the Sewage Authority. All of the financial operations of the Authority are recorded in a separate set of financial records and are available at the Sewage Authority Offices.

The funding formula approved by the members of the Local Units is based pro rata on each unit's population. The City's contribution to the Sewage Authority for the audit period was \$ 98,558.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

II. Government-Wide and Fund Financial Statements

The government-wide statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

III. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

III. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable—Current Property Taxes

The City property tax is levied on each July 1st on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31st.

The City's 2003 ad valorem tax is levied and collectible on July 1, 2003. It is the City's policy to recognize revenue from the current tax levy when the tax is levied for real property and when collected for personal property as the amounts are then "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2003 taxable valuation of the City totaled \$9.902 million, on which ad valorem taxes levied consisted of 19.7846 mills for the City operating purposes, raising \$172,000 for financing operations. This amount is recognized in the General Fund financial statements as property taxes.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on Major Streets.

The Tax Incremental Financing Fund accounts for the taxes collected that are restricted for use in the Tax Incremental Financing District and the payment of obligated loans.

The government reports the following major proprietary funds:

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewer collection system.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

III. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relate to charges to customers for sales and services. The water and sewer funds also recognizes the portion of the fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

IV. Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments— Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of six months or less when acquired. Investments are stated at fair value.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IV. Assets, Liabilities, and Net Assets or Equity (Continued)

Receivables and Payables– In general, outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “due to/from other funds.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items– Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets– The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets– Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The infrastructure assets acquired prior to July 1, 2003, have been excluded from the financial statements in compliance with Governmental Accounting Standards Board Statement No. 34. The value of future acquisitions of infrastructure assets will be capitalized and depreciated.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IV. Assets, Liabilities, and Net Assets or Equity (Continued)

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	40 to 60 years
Roads	10 to 30 years
Other Infrastructure	10 to 40 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Compensated Absences (Vacation, Personal and Sick Leave)— It is the government's policy to permit employees to accumulate earned but unused vacation, personal and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amount when employees separate from service with the government. All vacation and personal leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

Long-Term Obligations— In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity— In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IV. Assets, Liabilities, and Net Assets or Equity (Continued)

Comparative Data/Reclassifications– Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE B-STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information– Annual budgets are adopted on a cash basis. All annual appropriations lapse at fiscal year end. The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. (i.e., The level at which expenditures may not legally exceed appropriations.)

Excess of Expenditures Over Appropriations in Budgeted Funds– During the year, the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

Budget Item	Budget Appropriation	Actual Expenditure
General - City Council	\$ 1,500	\$ 2,482
General - City Manager	20,681	37,492
General - Tax Administration	4,900	6,299
General - Building and Grounds	28,000	78,632
General - Police	55,000	57,370
General - Fire	35,000	86,909
General - Public Works	66,250	79,662
General - Street Lighting	12,000	14,941
General - Community Promotion	0	8,009
General - Parks and other	7,000	9,157
General - Paid Time Off	0	20,346
Major Streets - Construction	40,000	43,901
Major Streets - Street Sweeping	100	3,598
Major Streets - Roadside Maintenance	0	1,070
Major Streets - Traffic Services	0	580
Major Streets - Winter Maintenance	7,377	49,342
Major Street - Administration	4,615	5,430

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE B-STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Excess of Expenditures Over Appropriations in Budgeted Funds (Continued)

Budget Item	Budget Appropriation	Actual Expenditure
Tax Incremental Financing - Debt Service	\$ 0	\$ 10,257
Local Streets - Trees and Shrubs	0	344
Local Streets - Winter Maintenance	9,320	25,020
Local Streets - Administration	1,000	3,426

Fund Deficits— The Local Governmental Unit has no accumulated fund balance/retained earning deficits.

NOTE C-DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government of federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after date of purchase; obligations of the State of Michigan or its political subdivision which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Council had designated three banks for the deposit of City funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 had authorized investment in bonds and securities of the United States government and its agencies and bank time deposit accounts but not the remainder of State statutory authority as listed above. The City's deposits and investment policy are in accordance with statutory authority.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE C--DEPOSITS AND INVESTMENTS (CONTINUED)

At year-end, the Local Unit's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total Primary Government
Cash & Cash Equivalents	\$ 370,642	\$ 73,633	\$ 8,167	\$ 452,442
Restricted Assets	0	73,698	0	73,698
Total	<u>\$ 370,642</u>	<u>\$ 147,331</u>	<u>\$ 8,167</u>	<u>\$ 526,140</u>

All of the cash and equivalents have been placed in bank accounts at the various approved financial institutions. The bank balance is \$526,140 of which \$281,692 is covered by federal depository insurance.

NOTE D-- RECEIVABLES

Receivables as of year-end for the government's individual major and nonmajor funds, and the fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Major Street Fund	Tax Incremental Financing Fund	Water Fund	Sewer Fund	Non-Major and Other Funds	Total
Taxes receivable	23,725	0	0	0	0		23,725
Accounts receivable	12,209	0	0	21,568	15,277		49,054
Due from other funds	48,071	0	0	0	0		48,071
Due from other governmental units	<u>17,479</u>	<u>13,485</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,462</u>	<u>36,426</u>
Gross Receivables	101,484	13,485	0	21,568	15,277	5,462	157,276
Less: Allowance for Uncollectibles	<u>(642)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(642)</u>
Net Receivables	<u>100,842</u>	<u>13,485</u>	<u>0</u>	<u>21,568</u>	<u>15,277</u>	<u>5,462</u>	<u>156,634</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE E-- CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated				
Buildings	115,324	23,895	0	139,219
Improvements Other Than Buildings	0	1,729	0	1,729
Machinery and Equipment	187,500	0	0	187,500
Infrastructure	0	0	0	0
Subtotal	302,824	25,624	0	328,448
Less Accumulated Depreciation for				
Buildings	0	3,594	0	3,594
Improvements Other Than Buildings	0	86	0	86
Machinery and Equipment	0	20,519	0	20,519
Infrastructure	0	0	0	0
Subtotal	0	24,199	0	24,199
Governmental Activities Capital Total				
Capital Assets--Net of Depreciation	302,824			304,249
Business-Type Activities				
Capital Assets Being Depreciated				
Buildings	0	0	0	0
Improvements Other Than Buildings	0	0	0	0
Machinery and Equipment	42,078	0	0	42,078
Infrastructure	3,213,056	0	0	3,213,056
Subtotal	3,255,134	0	0	3,255,134
Less Accumulated Depreciation for				
Buildings	0	0	0	0
Improvements Other Than Buildings	0	0	0	0
Machinery and Equipment	26,750	4,608	0	31,358
Infrastructure	521,516	81,554	0	603,070
Subtotal	548,266	86,162	0	634,428
Governmental Activities Capital Total				
Capital Assets--Net of Depreciation	2,706,868			2,620,706

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE E-- CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General Government	299
Public Safety	11,128
Public Works	<u>12,772</u>
Total Governmental Activities	<u>24,199</u>
Business-Type Activities	
Water	86,142
Sewer	<u>0</u>
Total Business-Type Activities	<u>86,142</u>

NOTE F--INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due To/From Other Funds		
General	Tax Incremental Financing	29,391
General	Tax Collection	18,679
Tax Collection	Tax Incremental Financing	<u>10,419</u>
Total		<u>58,489</u>

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE G-- LONG TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Bond and contractual obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities						
General Obligation Bonds						
1993 Fire Hall Bonds	5.75%	10-Apr-21	113,527	(3,737)	109,790	3,960
Installment Purchase Agreements						
1998 Fire Truck Purchase	5.15%	PAID	66,094	(66,094)	0	0
Total Governmental Activities			<u>179,621</u>	<u>(69,831)</u>	<u>109,790</u>	<u>3,960</u>
Business-Type Activities						
Revenue Bonds						
1995 Water System Bonds	4.50%	01-Feb-35	1,058,000	(14,000)	1,044,000	16,000
Total Business-Type Activities			<u>1,058,000</u>	<u>(14,000)</u>	<u>1,044,000</u>	<u>16,000</u>

Annual debt service requirements to maturity for the above obligations are as follows:

Year End June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2005	3,960	6,296	16,000	46,980
2006	4,198	6,059	16,000	46,260
2007	4,449	5,808	18,000	45,540
2008	4,700	5,557	18,000	44,730
2009	4,997	5,260	20,000	43,920
2010-2014	29,834	21,450	112,000	205,470
2015-2019	39,906	11,377	138,000	177,930
2020-2024	17,746	1,009	162,000	144,720
2025-2029			197,000	105,660
2030-2034			275,000	56,025
2035			72,000	3,240
Totals	<u>109,790</u>	<u>62,816</u>	<u>1,044,000</u>	<u>920,475</u>

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE H-RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

REQUIRED
SUPPLEMENTAL
INFORMATION

CITY OF CASPIAN
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year ended June 30, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 418,079	\$ 418,079	\$ 418,079	\$ 0
Resources (Inflows)				
Property taxes	141,577	141,577	172,234	30,657
State shared revenues and grants	180,079	180,079	146,092	(33,987)
Fines and forfeitures	0	0	293	293
Charges for services	75,898	75,898	82,666	6,768
Interest and rentals	54,518	54,518	73,618	19,100
Sale of property	8,822	8,822	2,500	(6,322)
Reimbursements	0	0	23,895	23,895
Other	4,000	4,000	9,729	5,729
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 882,973	\$ 882,973	\$ 929,106	\$ 46,133
Charges to Appropriations (Outflows)				
General Government				
City council	\$ 1,500	\$ 1,500	\$ 2,482	\$ (982)
City manager	20,681	20,681	37,492	(16,811)
Treasurer	14,000	14,000	10,256	3,744
Tax administration	4,900	4,900	6,299	(1,399)
Clerk	12,000	12,000	9,905	2,095
Elections	1,900	1,900	1,518	382
Counsel	12,750	12,750	7,288	5,462
Audit	7,000	7,000	4,690	2,310
Buildings and grounds	28,000	28,000	78,632	(50,632)
Cemetery	9,000	9,000	7,976	1,024
Public Safety				
Police	55,000	55,000	57,370	(2,370)
Fire	35,000	35,000	18,680	16,320
Public Works				
General	66,250	66,250	79,662	(13,412)
Street lighting	12,000	12,000	14,941	(2,941)
Refuse collection and disposal	60,500	60,500	57,485	3,015
Recreation				
Community promotion	0	0	8,009	(8,009)
Parks and other	7,000	7,000	9,157	(2,157)
Employee Benefits				
Paid time off	0	0	20,346	(20,346)
Retirement	26,366	26,366	17,625	8,741
Insurance and taxes	92,936	92,936	63,109	29,827
Insurance				
General	18,500	18,500	18,715	(215)
Debt service	0	0	68,229	(68,229)
TOTAL CHARGES TO APPROPRIATIONS	\$ 485,283	\$ 485,283	\$ 599,866	\$ (114,583)
BUDGETARY FUND BALANCE--ENDING	\$ 397,690	\$ 397,690	\$ 329,240	\$ (68,450)

CITY OF CASPIAN
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET FUND
Year ended June 30, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 96,579	\$ 96,579	\$ 96,579	\$ 0
Resources (Inflows)				
State shared revenues and grants	79,635	79,635	89,612	9,977
Interest earned	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 176,214	\$ 176,214	\$ 186,191	\$ 9,977
Charges to Appropriations (Outflows)				
Public Works				
Construction	\$ 40,000	\$ 40,000	\$ 43,901	\$ (3,901)
Routine maintenance	31,500	31,500	26,899	4,601
Street sweeping	100	100	3,598	(3,498)
Roadside maintenance	0	0	1,070	(1,070)
Traffic services	0	0	580	(580)
Winter maintenance	7,377	7,377	49,342	(41,965)
Administration	<u>4,615</u>	<u>4,615</u>	<u>5,430</u>	<u>(815)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>83,592</u>	\$ <u>83,592</u>	\$ <u>130,820</u>	\$ <u>(47,228)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>92,622</u></u>	\$ <u><u>92,622</u></u>	\$ <u><u>55,371</u></u>	\$ <u><u>(37,251)</u></u>

CITY OF CASPIAN
BUDGETARY COMPARISON SCHEDULE
TAX INCREMENTING FINANCING FUND
Year ended June 30, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 36,434	\$ 36,434	\$ 36,434	\$ 0
Resources (Inflows)				
Property taxes	29,502	29,502	35,979	6,477
Interest earned	<u>0</u>	<u>0</u>	<u>37</u>	<u>37</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 65,936	\$ 65,936	\$ 72,450	\$ 6,514
Charges to Appropriations (Outflows)				
Public Works				
Capital outlay	\$ 50,368	\$ 50,368	\$ 25,624	\$ 24,744
Debt service	<u>0</u>	<u>0</u>	<u>10,257</u>	<u>(10,257)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>50,368</u>	\$ <u>50,368</u>	\$ <u>35,881</u>	\$ <u>14,487</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>15,568</u></u>	\$ <u><u>15,568</u></u>	\$ <u><u>36,569</u></u>	\$ <u><u>21,001</u></u>

CITY OF CASPIAN
PENSION FUNDING AND STATISTICS
JUNE 30, 2004

SCHEDULE OF FUNDING PROGRESS

<u>ACTUARIAL VALUATION DATE</u>	<u>ACTUARIAL VALUE OF ASSETS</u>	<u>ACTUARIAL ACCRUED LIABILITY</u>	<u>UNFUNDED AAL (UAAL)</u>	<u>FUNDED RATIO</u>	<u>COVERED PAYROLL</u>	<u>UAAL AS A PERCENTAGE OF COVERED PAYROLL</u>
31-Dec-98	291,630	419,089	127,459	70%	187,567	68%
31-Dec-99	335,145	466,524	131,379	72%	160,291	82%
31-Dec-00	363,034	525,703	162,669	69%	172,773	94%
31-Dec-01	391,298	551,243	159,945	71%	176,220	91%
31-Dec-02	403,681	593,154	189,473	68%	188,769	100%
31-Dec-03	435,291	646,340	211,049	67%	195,194	108%

SCHEDULE OF EMPLOYER CONTRIBUTIONS:

<u>YEAR ENDED</u>	<u>ANNUAL REQUIRED CONTRIBUTION</u>	<u>PERCENTAGE CONTRIBUTED</u>
31-Dec-01	26,367	100%
31-Dec-02	26,437	100%
31-Dec-03	27,940	100%

THE INFORMATION PRESENTED ABOVE WAS DETERMINED AS PART OF THE ACTUARIAL VALUATION AT THE DATES INDICATED. ADDITIONAL INFORMATION AS OF THE LATEST ACTUARIAL VALUATION IS AS FOLLOWS:

ACTUARIAL COST METHOD	ENTRY AGE NORMAL
AMORTIZATION METHOD	LEVEL PERCENTAGE OF PAYROLL
AMORTIZATION PERIOD	30 YEARS, OPEN
ASSET VALUATION METHOD	5 YEAR SMOOTHED MARKET
ACTUARIAL ASSUMPTIONS	
INVESTMENT RATE OF RETURN	8.00%
PROJECTED SALARY INCREASES*	4.5% - 8.16%
*INCLUDES MERIT AND LONGEVITY INCREASES	0% - 4.16%
INFLATION	4.50%
COST OF LIVING ADJUSTMENTS	2.00%
OTHER	1994 GROUP MORTALITY TABLE

ADDITIONAL
INFORMATION

CITY OF CASPIAN
WATER UTILITY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ACTUAL, BUDGET AND PRIOR YEAR
Years ended June 30, 2004 and 2003

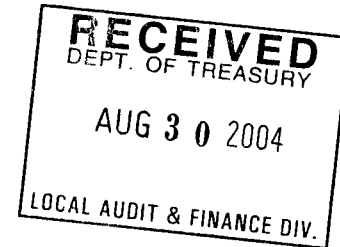
	<u>2003-2004</u>			<u>2002-2003</u>
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>	<u>ACTUAL</u>
OPERATING REVENUES				
Charges for services:				
Water sales and services	\$ 147,462	\$ 0	\$ 147,462	\$ 150,034
Other	<u>1,931</u>	<u>143,000</u>	<u>(141,069)</u>	<u>2,620</u>
TOTAL OPERATING REVENUES	\$ 149,393	\$ 143,000	\$ 6,393	\$ 152,654
OPERATING EXPENSES				
Administrative and clerical	\$ 34,425	\$ 25,400	\$ (9,025)	\$ 38,474
Pump station	9,210	7,250	(1,960)	6,461
Lines	15,249	63,604	48,355	22,475
Tanks	11,365	7,333	(4,032)	5,803
Hydrants	1,441	1,000	(441)	512
Meters	3,369	2,500	(869)	3,099
Fringe benefits	28,237	2,451	(25,786)	38,889
Depreciation	<u>23,587</u>	<u>0</u>	<u>(23,587)</u>	<u>23,018</u>
TOTAL OPERATING EXPENSES	\$ 126,883	\$ 109,538	\$ (17,345)	\$ 138,731
NET OPERATING INCOME (LOSS)	\$ 22,510	\$ 33,462	\$ (10,952)	\$ 13,923
NON-OPERATING GAINS/LOSSES				
Interest earned	\$ 2,166	\$ 2,200	\$ (34)	\$ 2,435
Interest expense	<u>(47,348)</u>	<u>0</u>	<u>(47,348)</u>	<u>(47,978)</u>
NET INCOME (LOSS)	\$ (22,672)	\$ 35,662	\$ (58,334)	\$ (31,620)
Retained earnings - beginning	<u>161,346</u>			<u>192,966</u>
RETAINED EARNINGS - ENDING	\$ <u>138,674</u>			\$ <u>161,346</u>

SCOTT R. KENNEY

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In conjunction with the audit of the general purpose financial statements of the City of Caspian (City) as of and for the year ended June 30, 2004, I have reviewed the City's accounting policies and procedures and systems of internal control. My audit was conducted primarily to enable me to formulate an opinion on the City's financial statements and accordingly, would not disclose all weaknesses in the system which may exist. My review disclosed certain areas in which I believe more effective internal control or increased efficiency may be achieved. This letter is intended to summarize my findings and present my overall conclusions and recommendations. It has been prepared solely for the information of the City Council and management and should not be presented or quoted to anyone outside of the City because of the possibility of misunderstanding by other persons who may not be aware of the objectives and limitations of internal controls and my study and evaluation thereof. The first comment is repeated from the prior year's letter of comments and recommendation.

1. **OBSERVATION** - The City has been making the payments for the debt on the Fire Hall from the General Fund. Taxes are collected in the Tax Incremental Financing Fund for this purpose.

RECOMMENDATION - I recommend that the future payments on the Fire Hall debt be made directly from the Tax Incremental Financing Fund to eliminate the subsequent requirement to transfer money back to the general fund as reimbursing payments.

2. **OBSERVATION** - The City is not able to trace the customer utility charges through its detailed records to the general ledger system.

RECOMMENDATION - I recommend that the City correct this shortcoming in one of the following ways:

- A. The Utility Billing Register report be reprinted in its entirety following the final corrections each month, or
- B. The City retain the edit corrections for each change following printing of the original Utility Billing Register report.

The first of these recommendations is preferred.

3. **OBSERVATION** - The City saw a serious degradation of its retained earnings in its Sewer Fund. This is the result of substantial costs incurred to comply with a Department of Environmental Quality consent order.

RECOMMENDATION - I recommend that the City increase its charges for the sewer collections. This will allow the City to earn adequate revenues to cover all of its costs. This increase will still place the routine sewer charge at a level that is less than most of the surrounding communities.

I understand that the Board is currently contemplating a \$2 per customer per month rate increase. I do not feel that a \$2 increase will be adequate to cover the ongoing costs. I recommend that the Board increase the rate by a minimum of \$3 or preferably \$4.

In addition, I recommend that the City implement a system of increasing its charges on an annual basis to maintain its fund balance.

I would like to thank the City for allowing me to conduct the audit of the financial statements and I would especially like to thank Rich and Sandy for their assistance during the audit.

If the City would like my assistance in implementing any of the above recommendations or would like to discuss any of these items further, I am willing to assist you in any way that I can.


Catharine R. Kenney
Certified Public Accountant

August 2, 2004